

Governor Sonny Perdue

State of Georgia



2009 Debt Management Plan

Georgia State Financing and Investment Commission

STATE OF GEORGIA

2009 DEBT MANAGEMENT PLAN

PREPARED BY:
GEORGIA STATE FINANCING AND INVESTMENT COMMISSION
PUBLIC RESOURCES ADVISORY GROUP

FY 2009 – FY 2014

STATE OF GEORGIA

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State of Georgia 2009 Debt Management Plan

Introduction

The State of Georgia (the “State”) is one of only seven states currently rated triple-A by all three of the major bond rating agencies: Fitch Ratings, Moody’s Investors Service and Standard & Poor’s. The preservation of the triple-A rating is dependent on the State’s financial position, financial management, moderate debt levels, and strong and responsive leadership. A formal debt management plan is one of the useful tools for preserving the State’s superior credit ratings and is helpful in determining the appropriate level of tax-supported debt to meet the State’s needs for capital projects. The 2009 Debt Management Plan (the “Plan”) can be used to help the State make funding decisions to meet its highest priority capital project requirements, while not exceeding debt affordability standards generally deemed important by the debt markets and rating agencies. This report provides information concerning the policies under which the State issues and manages its debt and also presents the debt management plan for fiscal years 2009 through 2014.

Overview of Debt Issuance

Georgia State Financing and Investment Commission

In November of 1972, the voters of the State of Georgia approved a comprehensive amendment to the Constitution of 1945. The amendment permitted the State to finance its capital outlay needs directly through the issuance of general obligation debt and created the Georgia State Financing and Investment Commission (the “Commission”). Prior to the adoption of the 1972 amendment, the State’s capital outlay needs were met through the issuance of bonds by ten separate State authorities; the authority bonds were secured by lease rental agreements between the authorities and various State departments and agencies. The provisions of the 1972 amendment were implemented by the General Assembly in 1973 with the enactment of the Georgia State Financing and Investment Commission Act (the “Act”).

Pursuant to the State Constitution, the Commission is charged with the following responsibilities: the issuance of all public debt of the State, the proper application of the proceeds of such debt to the purposes for which it is incurred, and the investment of all proceeds to be administered by it, and such additional responsibilities as provided by law. The Commission is comprised of seven members: Governor of the State of Georgia, President of the Georgia Senate, Speaker of the Georgia House of Representatives, State Auditor, Attorney General, Director of the Office of Treasury and Fiscal Services, and the Commissioner of Agriculture.

In 1973, the Act was enacted, creating two distinct divisions--a Financing and Investment Division, and a Construction Division. Each division is administered by a Director who reports directly to the Commission. The Commission is empowered by the Act to:

- Perform all services relating to the issuance of State debt,
- Invest and account for all proceeds derived from incurring general obligation debt or such other amounts as may be appropriated to the Commission for capital outlay purposes,
- Manage all other State debt issuance,
- Provide financial advisory assistance to State authorities and agencies regarding the issuance of debt, and
- Acquire and construct projects for the benefit of any State agency or to contract with any such agency to acquire or construct projects.

Types of Debt

The Constitution of the State of Georgia provides for the issuance by the State of both general obligation debt and guaranteed revenue debt. The full faith, credit and taxing power of the State is constitutionally pledged to the payment of both of these types of debt. During the legislative session each year the General Assembly authorizes new State debt. The Constitution also provides for the issuance of revenue debt which may be issued by certain State authorities as authorized by statute. Non-guaranteed revenue debt does not carry the backing of the full faith, credit and taxing power of the State, rather it is supported by revenues generated by the specific projects that are being funded.

General Obligation Debt

Purposes for which General Obligation Debt May be Issued

The Constitution allows the use of general obligation debt for the following purposes: (1) to acquire, construct, develop, extend, enlarge, or improve land, waters, property, highways, buildings, structures, equipment, or facilities of the State, its agencies, departments, institutions, and of certain State authorities, (2) to provide educational facilities for county and independent school systems and for public library facilities for county and independent school systems, counties, municipalities, and boards of trustees of public libraries or boards of trustees of public library systems, and (3) to make loans to counties, municipal corporations, political subdivisions, local authorities, and other local government entities for water or sewerage facilities or systems, or for regional or multi-jurisdictional solid waste recycling or solid waste facilities or systems. For the first two purposes described above, the Constitution limits the term of general obligation debt to 25 years. In practice, in order to match the useful life of the project with the debt issuance, the State typically issues fixed-rate bonds with a 20-year final maturity for major construction and rehabilitation projects or with a 5-year final maturity for minor repair projects and equipment needs, although, for the first time, in the fiscal year 2007 budget appropriations for 10-year final maturity debt to fund several projects was included.

Authorization and Conditions for Issuance of General Obligation Debt

General obligation debt cannot be incurred unless the General Assembly first enacts legislation (and such legislation becomes law upon approval by the Governor) that states the purposes, in either general or specific terms, for which the general obligation bonds are to be issued, specifies the maximum principal amount of each bond issue, and appropriates funds in an amount at least sufficient to cover the

highest annual debt service requirements for such issue. Unless repealed by the General Assembly (and such legislation becomes law upon approval by the Governor) prior to the bonds being issued, appropriations made for debt service do not lapse for any reason and continue in effect until the debt for which the appropriation was authorized has been incurred.

Appropriations for debt service payments on general obligation bonds are required to be made to a special trust fund which is designated as the "State of Georgia General Obligation Debt Sinking Fund." The amount to be appropriated to the sinking fund must be sufficient to pay annual debt service requirements on all general obligation debt. The Constitution mandates that monies in the sinking fund shall be used solely for the retirement of general obligation debt.

As a safeguard against shortages in the sinking fund, a constitutional provision ensures that adequate funds will be available for debt service. Should the General Assembly fail to make an appropriation to the sinking fund, or if, for any reason, the amount in the sinking fund is insufficient to make all required payments, the Constitution then requires that the first revenues received in the general fund of the State, to the extent necessary to cure the deficiency, be set aside and deposited into the sinking fund.

Guaranteed Revenue Debt

Purposes for which Guaranteed Revenue Debt May be Issued

Guaranteed revenue debt is debt which has been issued by an instrumentality of the State and for which the State has guaranteed the payment of the obligations. The Constitution limits the use of guaranteed revenue debt to the following purposes:

- toll bridges and roads,
- land-based public transportation facilities or systems,
- water facilities or systems,
- sewage facilities or systems,
- loans to, and loan programs for, citizens of the State for educational purposes, and
- regional or multi-jurisdictional solid waste recycling or solid waste facilities or systems.

The amount of guaranteed revenue debt that may be issued to fund water or sewage treatment facilities or systems, and to make loans for educational purposes, is limited by the Constitution:

"No guaranteed revenue debt may be incurred to finance water or sewage treatment facilities or systems when the highest annual debt service requirements for the then current year or any subsequent fiscal year of the State for outstanding or proposed guaranteed revenue debt for water facilities or systems or sewage facilities or systems exceed 1 percent of the total revenue receipts less refunds of the State treasury in the fiscal year immediately preceding the year in which any such debt is to be incurred," and

"The aggregate amount of guaranteed revenue debt incurred to make loans for educational purposes that may be outstanding at any time shall not exceed \$18 million, and the aggregate

amount of guaranteed revenue debt incurred to purchase, or lend or deposit against the security of, loans for educational purposes that may be outstanding at any time shall not exceed \$72 million."

Authorization and Conditions for Issuance of Guaranteed Revenue Debt

Prior to incurring guaranteed revenue debt, legislation must be enacted authorizing the guarantee of the specific issue of revenue obligations being proposed. The General Assembly must determine conclusively that such obligations will be self-liquidating over the life of the issue, specify the maximum principal amount of such issue, and appropriate an amount at least equal to the highest annual debt service requirements for the bond issue; upon issuance of the bonds the appropriation must be deposited into a special trust fund designated as the "State of Georgia Guaranteed Revenue Debt Common Reserve Fund." This trust fund provides a common reserve for any payments required by virtue of the State guarantee made in connection with any issue of guaranteed revenue obligations. Appropriations made for the benefit of guaranteed revenue debt do not lapse for any reason; they continue in effect until the debt for which an appropriation was authorized has been incurred. However, any such appropriation may be repealed prior to payment having been made into the common reserve fund.

If revenues are not available to meet debt service requirements and payments are then required to be made from the common reserve fund, the reserve fund must be reimbursed from the State's general fund within 10 days after the start of the next fiscal year. However, the requirement to reimburse the guaranteed revenue debt common reserve fund for any payment is subordinate to the obligation to make sinking fund deposits for the benefit of general obligation debt.

While the Constitution requires that the amount to the credit of the guaranteed revenue debt common reserve fund at all times be at least equal to the aggregate highest annual debt service requirements on all outstanding guaranteed revenue obligations, it also provides that any excess funding in the common reserve fund at fiscal year's end is transferred to the State's general fund.

Revenue Debt

Purposes for which Revenue Debt May be Issued

Certain State authorities are authorized by their enabling legislation to issue revenue bonds for various revenue-producing undertakings. Since revenue bonds are not tax-supported and there is no State guarantee, the issuance of such bonds by State authorities does not directly affect the State's debt burden or debt capacity.

For example, legislation pertaining to the Georgia Housing and Finance Authority permits it to issue revenue bonds for multiple purposes including financing housing facilities, and constructing and equipping health facilities. This debt is secured solely by project revenues and there is no direct or implied guarantee as to debt service payments by the State.

Another example of Authority-issued revenue debt is the State Road and Tollway Authority's program of Grant Anticipation Revenue Vehicles ("GARVEEs") Bond issues. The State plans to issue a total of approximately \$3 billion of GARVEEs between fiscal year 2007 through fiscal year 2011 as part

of the Governor's Fast Forward Congestion Relief Program to help provide congestion relief and improve access to promote economic development. GARVEE bonds are secured solely by future Federal aid highway reimbursements received by the State and do not have any direct or implied guarantee by the State of the debt service payments. In fiscal year 2007, the State issued \$450 million of GARVEE bonds, as well as \$50 million (of the \$150 million authorized by the Commission) of GARVEE commercial paper. In fiscal year 2008 the State issued an additional \$600 million of GARVEE bonds. This transaction refunded the outstanding commercial paper previously issued and provided over \$583 million to the Project Fund. In addition, the State Road and Tollway Authority plans to issue \$600 million fixed rate bonds in the first quarter of calendar year 2009. The impact of GARVEE debt is discussed in greater detail further in the report.

The Georgia Higher Education Facilities Authority ("GHEFA") was created during the 2006 legislative session to issue revenue bonds to finance various self-supporting capital projects for the Board of Regents of the University System of Georgia and the Technical College System of Georgia. GHEFA is authorized under the legislation to issue up to \$300 million in revenue bonds. The first issue of revenue bonds, Series 2008, priced and closed in November 2008. Another issue of approximately \$100-\$200 million is targeted for mid-calendar year 2009. GHEFA debt is secured solely by the project revenues with no direct or implied guarantee as to debt service payments by the State.

Authorization and Conditions for Issuance of Revenue Debt

Prior to the issuance of revenue bonds, a resolution of the appropriate State Authority's governing body must be adopted requesting that the Commission authorize the debt, as outlined in the Commission's debt policy entitled "State Authorities Debt Issuance Approval Policy and Underwriter Selection Procedures." This policy establishes that prior to issuance, any public offering or private placement of Authority debt must secure a minimum bond rating of one letter grade below the State's general obligation bond rating from at least one of the nationally recognized bond rating agencies. This rating may be accomplished on the Authority's own credit, through the purchase of bond insurance, or a bank letter of credit. An exception was made to this policy by the Commission for the Georgia Higher Education Authority, Series 2008 bonds rated "A" by Moody's as a result of credit concerns in the municipal bond insurance market at the time of issuance. Upon receiving the Commission's approval, the State Authority may proceed with its planned bond issue, as outlined in the policy.

Public Universities Foundation Debt

There have been approximately 118 revenue bond debt issues by local authorities for foundations associated with the State's public universities. Proceeds of these bond issues are used for various types of projects at the universities, such as student housing, research facilities, office buildings, parking, and other student activity facilities. In addition to any direct project revenues (such as housing fees) that provide security for the debt, an annually renewable lease between the foundation and the Board of Regents of the University System of Georgia indirectly secures the debt. Each year, upon renewal of the lease, the obligation to make the lease payment becomes a legal and binding obligation of the Board of Regents, secured by the entirety of the financial resources of the Board of Regents. In accordance with the requirements of GASB Statement 39, *Determining Whether Certain Organizations are Component Units*, the State has determined that fourteen higher education foundations and similar organizations meet the

criteria for inclusion in the State reporting entity for the State's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2008.

Historically, the three major rating agencies have indicated that for their calculations of debt ratios, university foundation liabilities for revenue bonds payable would not be considered debt of the State and would not be included in the calculation of net tax supported debt of the State. Foundation debt is not included in the debt management plan since the leases are on an annually renewable basis. Liabilities for revenue bonds payable are reported in the combining statement of net assets for nonmajor component units in the State's Comprehensive Annual Financial Report in accordance with GASB 39.

Capital Leases

The State acquires certain property and equipment through multi-year capital leases with varying terms and options. The majority of these agreements contain fiscal funding clauses in accordance with O.C.G.A. 50-5-64 which prohibits the creation of a debt to the State of Georgia for the payment of any sums under such agreements beyond the fiscal year of execution if appropriated funds are not available. If renewal of such agreements is reasonably assured, however, capital lease requiring appropriations by the General Assembly are considered noncancellable for financial reporting purposes. As of June 30, 2008, future commitments under capital leases for governmental activities equaled \$5.2 million. Due to the statutory restrictions applicable to these capital leases, they are not included as debt obligations in the debt management plan.

Use of Variable Rate Debt

In December 2006, the State issued \$300 million in general obligation variable rate debt with a standby bond purchase agreement liquidity facility with a major financial institution. There were \$287,750,000 variable rate bonds outstanding of December 31, 2008. The bonds were rated "triple A" by all of the rating agencies, who each also rated the short-term aspect of the bonds in their highest possible category. The primary benefit to the State of utilizing the variable rate debt method is that the State could lower its cost of funds since variable rates generally are at the lowest point on the yield curve. The State maintains an ongoing monitoring and evaluation process for its variable rate bonds and continues to make adjustments as needed. To date the average interest rate has been approximately 118 basis points lower than if the debt had been issued on a fixed rate basis when they were issued.

The use of variable rate debt does introduce an element of interest rate risk into the debt portfolio. The potential savings, however, should justify the exposure provided the risk is minimized by limiting the amount of the variable rate debt to a maximum of approximately 15% to 20% of total debt (the \$300 million of variable rate debt that was issued is less than 4% of the State's outstanding debt) or possibly mitigating the risk by using hedging tools such as interest rate caps, or swaps, where appropriate. At this point in time, and given interest rate expectations for the near term, there are no plans for the State to enter into any caps or swap contracts for its variable rate bonds. Although there is slightly more administrative burden and other ongoing costs associated with variable rate bonds than with fixed rate bonds, these are more than offset by the debt service savings.

Other Market Exposure

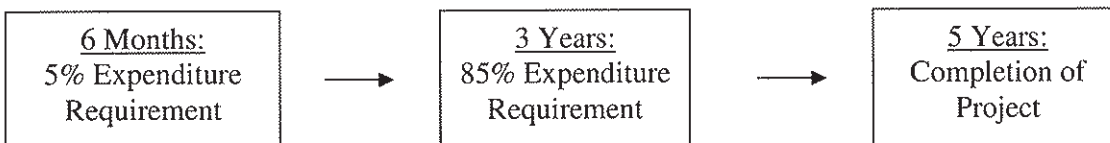
The State has just over \$729 million exposure in securities lending on a limited basis, which is less than 6% of the total assets managed by the State's Office of Treasury and Fiscal Services. This exposure is only in the long-term portfolios.

The State does not have any auction rate securities, does not have any guaranteed investment contracts, nor has entered into any derivative transactions. In addition the State does not issue tax and revenue anticipation notes.

Management of Bond Funded Projects

Management

Departmental responsibility for completion of projects on a timely schedule following receipt of proceeds, as well as compliance with Federal Tax Code requirements regarding tax-exempt bonds and arbitrage regulations, are continuing to be emphasized by the Commission and the State's Chief Financial Officer. The Boards of agencies and authorities receiving bond funds are required to adopt resolutions addressing the major tax-exempt financing requirements, including specific references to the five percent expenditure requirement within six months, eighty-five percent expenditure requirement within three years, and completion of project requirements within five years.



Commission staff continuously monitors the spend-down of projects and submits reports to the Commission at critical mileposts. Agencies that have not met spend-down guidelines are required to report on the status of the projects and also to detail the corrective action that they will be implementing to become compliant with respect to the next expenditure requirement.

Project Selection

At the beginning of each fiscal year, Commission staff solicits input from agencies that have been appropriated bond proceeds regarding a bond issuance schedule for that fiscal year. The agencies are asked to request their preferred timing for bond project funding; the agency requests are aggregated and a proposed issuance schedule is developed. To the maximum extent possible, future State capital projects will be selected for bond issuance using "readiness" criteria (in addition to market and financial considerations) to help ensure that projects are completed on a timely basis and to avoid potential arbitrage complications.

Excess Bond Proceeds

It is the intent of the Commission:

- 1) to prevent unexpended funds from remaining in completed project accounts; and
- 2) to be in compliance with all Federal Tax Code requirements regarding tax-exempt bonds.

To this end, whenever surplus funds are identified, they will be considered for redirection based on a number of factors including original intent of the appropriation, age of the funds, ease of transfer to other qualified projects, etc. An agency desiring to redirect funds from one approved bond project to another project of that agency may request redirection approval.

Debt Affordability

The debt management plan will guide the State in raising sufficient capital necessary to meet the infrastructure needs of the State without jeopardizing its triple-A ratings or adversely affecting the marketability of its bonds. With the State's existing constitutional debt limits, the control of debt issuance by the Commission, and the State's fiscally conservative leadership, the development of prudent debt capacity and affordability guidelines provide a sound basis for incorporating the issuance of debt into the capital project budgeting process.

Constitutional Debt Limit

Georgia's Constitution limits the amount of debt that may be issued by restricting the level of debt service payments for which the State may be obligated. Specifically, additional general obligation and guaranteed revenue debt may not be incurred whenever the highest aggregate annual debt service requirements for the current year or any subsequent year exceed 10 percent of the prior year's total treasury receipts.

Affordable Debt Capacity

A debt management plan for a five-year period will ensure the availability of funding for necessary capital projects required to meet the State's future needs and is a prudent method of maintaining an acceptable balance between the state's demand for capital and the ability and willingness of the State to repay additional debt. Appropriate targets for debt issuance, based on the State's growth experience and expectations and the financial resources available to meet its debt obligations, provide assurance that additional debt is authorized at prudent levels.

There is no specific formula, however, for determining the maximum amount of debt that should be issued by the State in any particular year. Many factors must be considered including the State's current and projected program and capital funding needs, revenue projections, fund balances and an overall plan for managing the budget. A debt management plan also should take into account the concept of debt affordability in determining the maximum amount of tax-supported debt that a state can afford to issue without jeopardizing its ratings. It is recognized that any model for determining debt affordability

will be dependent upon the reasonableness of economic forecasts and the resulting impact on the State's financial resources.

A debt management plan is best utilized in conjunction with a capital budgeting plan for a five-year period. Utilizing a debt management plan in association with a capital budget should provide policy makers with sufficient information to make informed funding decisions regarding the State's ability to finance expected capital improvements.

Rating Agency Considerations

Due to the economic and financial diversity among the 50 states, the credit markets rely heavily on the three major rating agencies to analyze the factors affecting each borrower's ability to meet its debt obligations. Each rating agency assigns credit ratings to debt issues as a means of distinguishing credit quality. Due to the high degree of importance attributed to ratings by investors, each issuer's ratings have a major impact on the marketability of its bonds and the interest rates necessary to generate investor demand in the issuer's debt issues. 'AAA' rated credits are "rewarded" in the market-place by being able to sell their debt at the lowest possible interest rates at any given point in time.

Rating agencies usually base credit decisions on trends relating to an issuer's debt burden, revenue base, fund balances and economic base, as well as a comparison of actual fiscal experience versus budgets over a three- to five-year period.

The overall rating analysis takes into account four primary factors:

- debt burden as measured by ratios,
- quality and strength of a state's economic base,
- fiscal management, and
- financial performance.

Existing tax supported debt burden is an important factor in the determination of a state's credit rating. Credit analysts usually calculate four ratios to use as measurements of debt burden. These four ratios are discussed in detail in a later section of the report. Credit analysts also look for diversity and growth potential of the economic base to generate sufficient revenues to consistently meet program needs and to repay all debt obligations.

When analyzing fiscal management, analysts compare fiscal results with budgets and plans. Such comparisons over time serve as an indicator of the effectiveness of fiscal management. Another criterion of sound fiscal management is the existence of policies and procedures allowing a state to maintain control over debt issuance.

Financial performance is a result of both the quality of a state's management and economic performance. One indicator of financial performance is a state's ability to adjust to meet revenue shortfalls due to unexpected economic downturns. Another gauge of a state's fiscal management and financial performance is its ability to establish and maintain reasonable reserves to cushion the effects of unexpected events, and to rebuild those reserves in a timely manner subsequent to their use.

The following are excerpts from credit reports released in June 2008 for the State's Series 2008A/B General Obligation Bonds:

FitchRatings: "The 'AAA' rating is the result of Georgia's conservative debt management, consistent maintenance of sound finances, and a diversified and growing economy... Ratios are growing but remain moderate... State and teacher pension systems are well funded..."

Moody's Investors Service: "The highest-quality rating reflects Georgia's conservative fiscal management, moderate debt burden, well-funded pensions, and strong reserves. Strengths include conservative financial practices and history of quick response to budgetary pressures; rebuilding financial reserve levels in recent years; well-funded employee pensions; and above-average job creation, diverse economic base and favorable demographic trends."

Standard & Poor's: "Georgia's 'AAA' rating reflects: An economy that has exhibited sound employment growth over the past two years but is expected to experience a slowdown in growth over the next two years...; a history of making difficult decisions to restore fiscal balance, enhanced by strong financial monitoring and oversight; revenue growth which, although currently expected to fall short of budget, has historically been strong and in excess of budgeted amounts; and budgetary reserves that are at an historic high and provide some cushion to the state's finances to help offset revenue shortfalls projected for fiscal years 2008 and 2009..."

Measuring Debt Burden

When calculating indebtedness, municipal credit analysts use measures that take into account all debt supported or serviced by an issuer's tax revenues. Such debt is known as net tax-supported debt. For the State, net tax-supported debt includes all general obligation debt and guaranteed revenue debt, but does not include any revenue bonds not supported by any direct or implied guarantee of the State. Guaranteed revenue debt is included in the calculation of net tax-supported debt because the revenues which are pledged (e.g. motor fuel taxes for State Road and Tollway Authority debt) for repayment of the debt are included in the State's net revenues. Revenue bonds which are issued by an instrumentality of the State, but which do not carry the State's guarantee, are not included in the calculation of the State's net tax-supported debt. The issuance of these bonds, however, requires prior approval by the Commission; such approval is granted only after careful scrutiny of the dedicated revenue stream that respectively supports these issues. Also, these revenues are not included in the State's net revenues.

The following table summarizes the State's issued principal amounts as of December 31, 2008; there are an additional \$1,092,695,000 general obligation bonds authorized which remain to be issued. The State anticipates issuing \$613,850,000 general obligation bonds in February 2009.

	<u>Total Original Principal Issued</u>	<u>Outstanding Principal</u>
General Obligation Debt	\$17,609,200,000	\$7,912,365,000
Guaranteed Revenue Debt	<u>859,640,000</u>	<u>578,695,000</u>
Total State Obligations	<u>\$18,701,895,000</u>	<u>\$8,491,060,000</u>

Four debt ratios are used to measure debt burden. These debt ratios provide a means to monitor the relative debt burden level for the State over a period of years and also provide a method of comparison of debt burdens among the various states.

- Debt per Capita = $\frac{\text{Net Tax-Supported Debt}}{\text{State's Population}}$
- Debt as Percent of Personal Income = $\frac{\text{Net Tax-Supported Debt}}{\text{Total Personal Income of the State's Population}}$
- Debt Service as Percent of State Net Revenues = $\frac{\text{Annual Debt Service Requirement}}{\text{Net Revenues of the State}}$
- Debt as Percent of Full Valuation of Assessed Property = $\frac{\text{Net Tax-Supported Debt}}{\text{Full Valuation of All Taxable Property}}$

Credit analysts also examine the rapidity of debt repayment ratio. This measure shows how much of an issuer's total long term debt is retired after 5 and 10 years. Analysts use a standard for this ratio of 25 percent retired in 5 years and 50 percent retired in 10 years as being more favorable than slower amortizations. The rating agencies favorably recognize the State's rapidity of debt repayment ratios (see "Historical Debt Ratios" chart later in the report).

Determination of Appropriate Measures for Georgia

Although there is not a formula which can precisely determine the optimal amount of tax-supported debt necessary to meet the State's capital funding needs while assuring that the triple-A debt ratings are preserved, the State has determined that the following three debt ratios provide the best measures of debt burden: (i) debt to personal income, (ii) debt service to state net revenues and (iii) debt per capita. These three ratios can be used to establish a reasonable level of debt that the State can support without undermining its ratings or its ability to meet its other funding needs. (In the State's case, debt as a percent of full valuation is less useful as a measure of debt burden, since the State derives less than 0.5 percent of its revenues from property taxes--historically the debt as a percentage of full valuation of assessed property ratio has been approximately 1 percent.) Using these three debt ratios in conjunction with a capital plan and maintaining debt levels within an affordable debt capacity should provide reasonable assurance that new debt issuance would not be cause for a reduction in the State's credit ratings.

- Debt as Percent of Personal Income: Since a large percentage of State revenues are generated by taxes on individual income and spending, there is a strong correlation between the State's ability to meet its debt obligations and the total personal income of the State's citizens. Therefore, debt as a percent of personal income is a good ratio to use as an indication of debt burden.
- Debt Service as a Percent of State Net Revenues: This ratio is a particularly useful method of gauging the debt burden of the State since this ratio indicates the budgetary impact on the State in meeting its annual principal and interest payments on total tax revenue supported debt. (Further, the State Constitution requires that the maximum annual debt service not exceed 10%

of the total revenue receipts, less refunds, of the State treasury in the fiscal year immediately preceding.)

- **Debt per Capita:** This ratio is helpful in assessing the relative magnitude of an issuer's debt position compared to other issuers.

These three ratios have been incorporated into a debt management plan flexible enough to allow the State to closely monitor these and other factors affecting the State's debt position. A critical component in developing the debt management plan is establishing reasonable maximum levels for these three debt ratios. Further, since the State anticipates issuing approximately \$3 billion of bonds known as GARVEE bonds to address transportation infrastructure needs during the FY 2007 through FY 2011 period, it is prudent to analyze the impact that GARVEE debt will have on the State's debt burden. However, since GARVEE bonds will be secured solely from federal highway reimbursements and will not have a back-up pledge of the full faith and credit of the State or any other State funds, the State also needs to analyze its debt burden without the impact of GARVEE bonds on the results. Given the State's capital funding needs and currently manageable debt ratios, the table below presents reasonable maximum levels for the three debt ratios.

Debt Ratio	Maximum Levels Without GARVEE Bonds	Maximum Levels With GARVEE Bonds
Debt Service to Prior Year Revenues	7.0%	8.0%
Debt to Personal Income	3.5%	4.0%
Debt per Capita	\$1,200	\$1,500

The debt per capita maximum limits were increased \$200 from previous levels beginning with the 2007 Debt Management Plan. These increases were necessary due to the additional infrastructure required to help ensure continued strong economic growth in the State and due to significantly higher construction costs that the State has experienced in recent years. The maximum levels for the more important ratios of debt to prior year revenues and debt to personal income remain the same because the growth in revenues and personal income should support the higher levels of debt.

Trend in State Debt Ratios

Below is a historical comparison of the State's net tax-supported indebtedness and debt ratios.

Historical Debt Ratios							
Fiscal Year Ended June 30	Debt Outstanding (\$ millions)	Debt % of Personal Income	\$ Debt per Capita	Debt % of Estimated Full Value	Debt Service % of Prior Year Receipts	% of Debt Retired in 5 Years	% of Debt Retired in 10 Years
2004	7,266.4	2.8	829	0.98	6.24	36.7	68.6
2005	6,901.9	2.5	775	0.89	6.00	39.4	71.2
2006	7,524.7	2.6	829	0.93	5.66	39.6	69.3
2007	8,259.5	2.7	876	0.99	5.81	38.2	66.8
2008	8,444.1	2.6	886	0.85	5.71	38.4	67.3

Source: Various Official Statements for State of Georgia General Obligation Bonds

In the period fiscal year 2004 through fiscal year 2008 the net amount of debt outstanding increased by 16 percent with the 'Debt % of Personal Income' and 'Debt Service % of Prior Year Receipts' ratios decreased slightly over the same time period. The rapidity of debt payment ratio stayed relatively constant over this period and is faster than the standard used by rating analysts of 25 percent of debt retired in 5 years and 50 percent retired in 10 years. The rating agencies have noted that although borrowing in the past few years has increased in response to population growth and economic development, the ratios remain very moderate, the State's debt burden has been steady relative to other states and relative to in-state personal income, and amortization of debt to be retired within ten years is rapid.

Comparison of Debt Burden to Other Triple-A States

As stated in the Introduction, Georgia is one of only seven states currently rated triple-A by each of the three major rating agencies. To validate the reasonableness of its own target debt ratios for the Plan, Georgia can compare its ratios to those of its ratings peer group—the triple-A rated states. The following table presents the debt ratios for these states, the group median and average, and the 50-state median and average.

Comparison of Debt Ratios for Triple-A States						
State	Net Tax-Supported Debt Per Capita (1)	Ranking Among 50 States (1)	Net Tax-Supported Debt as a % of 2006 Personal Income (1)	Ranking Among 50 States (1)	Percent FY2008 Debt Service to Prior Year Revenues (2)	Debt to Full Value (2)
Georgia	\$ 954	23	3.0%	20	5.71%	0.85%
Delaware	2,002	6	5.2	7	5.70	1.05
Maryland	1,297	16	3.0	21	5.96	1.45
Missouri	675	33	2.1	31	2.49	0.53
North Carolina	898	25	2.8	23	3.76	0.96
Utah	542	36	1.9	35	5.06	0.48
Virginia	764	29	1.9	34	3.72	0.87
Triple-A Median	898		2.8		5.06	0.87
Triple-A Average	1,019		2.9		4.63	0.88
50-State Median	889		2.6		na	na
50-State Average	1,158		3.2		na	na

(1) Compiled from Moody's Investors Service, 2008 State Debt Medians.

(2) For Delaware, Maryland, North Carolina —compiled from FY2007 Comprehensive Annual Financial Reports and various official statements.

For Missouri, Utah, Virginia—compiled from FY2008 Comprehensive Annual Financial Reports and various official statements.

As shown above, Georgia is close to the triple-A averages in all of the categories.

Economic and Demographic Projections

The Office of Planning and Budget has projected Treasury Receipts, personal income, population, and assessed and actual valuation of taxable property. These projections are summarized in the table below.

Economic and Demographic Projections								
Fiscal Year	Treasury Receipts (\$ millions)	% Growth	Personal Income (\$ billions)	% Growth	Population (millions)	% Growth	Estimated Full Value (\$ billions)	% Growth
2009	\$18,945.2	-4.3	\$334.3	2.6	9.704	1.8	1,017.7	2.5
2010	19,719.5	4.1	347.5	4.0	9.865	1.7	1,048.3	3.0
2011	20,589.0	4.4	366.3	5.4	10.055	1.9	1,079.7	3.0
2012	21,638.4	5.1	387.6	5.8	10.244	1.9	1,112.1	3.0
2013	22,770.7	5.2	410.1	5.8	10.434	1.9	1,145.5	3.0
2014	23,871.8	4.8	433.6	5.8	10.632	1.9	1,179.90	3.0

Debt Issuance Projections

At the beginning of fiscal year 2009, there was a total of \$1,615,105,000 of authorized, un-issued general obligation debt to be issued. (There was no authorized, un-issued guaranteed revenue debt.) Debt issuance projections for 2009 through 2014 are summarized in the table below.

Debt Issuance Projections (expressed in thousands)

Fiscal Year	G.O. Debt (5-Year Final Maturity)	G.O. Debt (10-Year Final Maturity)	Non-Transportation G.O. Debt (20- Year Final Maturity)	Transportation G.O. Debt (20-Year Final Maturity)	Total Projected Debt Issuance
2009	\$ 131,075	\$ 2,930	\$1,170,600	\$310,500	\$1,615,105
2010	122,880	11,600	982,205	100,000	1,216,685
2011	100,000	0	800,000	300,000	1,200,000
2012	100,000	0	800,000	300,000	1,200,000
2013	100,000	0	800,000	300,000	1,200,000
2014	100,000	0	800,000	300,000	1,200,000
Total	\$631,075	\$14,530	\$5,352,805	\$1,610,500	\$6,016,685

This table incorporates an assumption that all currently authorized bonds will be issued during fiscal year 2008.

Based on the existing debt, scheduled debt retirement and projected debt issuance, the following table summarizes the projected debt outstanding for each year through fiscal year 2014 and the projected highest annual debt service in each year.

	Fiscal Year Ending June 30 (expressed in thousands)					
	2009	2010	2011	2012	2013	2014
Debt at Beginning of Year	\$8,444,135	\$9,367,640	\$9,831,650	\$10,221,275	\$10,612,690	\$11,008,185
G.O. & G.R.B. Issuances	1,615,105	1,216,685	1,200,000	1,200,000	1,200,000	1,200,000
Scheduled/Early Retirements	(691,600)	(752,675)	(810,375)	(808,585)	(804,505)	(804,620)
Debt at End of Year	9,367,640	9,831,650	10,221,275	10,612,690	11,008,185	11,403,565
Highest Annual Debt Service (Issued and Un-issued)	1,098,250	1,292,595	1,378,077	1,404,559	1,428,634	1,457,409

Debt Issuance Modeling Assumptions

In analyzing debt issuance levels for the next five years, the State has made the following conservative assumptions:

Interest Rates Assumptions for future General Obligation Debt

	2009	2010	2011	2012	2013	2014
5 Year G.O. Bonds	5.00%	5.25%	5.25%	5.25%	5.25%	5.25%
10 Year G.O. Bonds	5.00%	5.25%	5.25%	5.25%	5.25%	5.25%
20 Year G.O. Bonds	5.75%	5.25%	5.25%	5.25%	5.25%	5.25%

Timing of Debt

All general obligation and GARVEE debt is assumed to be issued at the start of the fiscal year in which it will be spent, resulting in a half year's interest payment the year of issuance, and the first principal payment the following year. This assumption is a conservative one for modeling purposes, as it results calculating the debt service impact as early as possible in the year of issuance.

Principal Amortization

The model reflects level annual debt service payments over the life of the bonds.

Debt Ratio Results

The previously mentioned economic and demographic assumptions combined with the above modeling assumptions, results in the following debt ratios in future years (as of the end of each fiscal year):

	Triple-A Average	Maximum Plan Level	2009	2010	2011	2012	2013	2014
Debt Service to Prior Year Receipts	NA	7.0%	5.55%	6.82%	6.99%	6.82%	6.60%	6.40%
Debt Service to Current Year Receipts	NA	NA	5.80%	6.55%	6.69%	6.49%	6.27%	6.11%
Debt to Personal Income	%	3.5%	2.80%	2.83%	2.79%	2.74%	2.68%	2.63%
Debt per Capita	\$1,158	\$1,200	\$965	\$997	\$1017	\$1036	\$1055	\$1073
Debt to Actual Value	----	na	0.92%	0.94%	0.95%	0.95%	0.96%	0.97%

Peak debt ratios are shown in bold; based on debt outstanding at the end of the year.

Based on the projected growth rates for treasury receipts, population, per capita income, and property valuation, the projected debt issuance results in the ratio of Debt Service to Prior Year Treasury Receipts peaking in 2011 at a high of 6.99percent, the ratio of Debt Service to Current Year Receipts also peaking in 2011 at a high of 6.69 percent, the ratio of Debt to Personal Income peaking in 2010 at 2.83

percent, the ratio of Debt per Capita peaking in 2014 at \$1,073, and the ratio of Debt to Actual Value peaking in 2014 at 0.97 percent. With these projected levels of additional debt issuance and interest rate assumptions, the State will not exceed the maximum levels for any of the debt ratios set above. All ratios are well below the established permissible maximums.

Impact of GARVEE Debt

As mentioned previously, the State currently plans to issue approximately \$3 billion of GARVEE bonds by the end of Fiscal Year 2011 as part of the Governor's Fast Forward Congestion Relief Program to help provide congestion relief and improve access to promote economic development. The GARVEE bond program began with the issuance of \$500 million of GARVEE bonds in August 2006 -- \$450 million was issued as fixed rate bonds and \$50 million was issued in a commercial paper mode. The State structured the initial GARVEE bonds with a final maturity not to exceed 12 years, and the master trust indenture requires an additional bonds test whereby pledged revenues must be equal to at least 3.0 times the maximum annual debt service on all outstanding GARVEE debt for additional debt to be issued on parity with the previously issued debt. (This structure is expected to be continued for the 2009 GARVEE bonds; future structures will be evaluated closer to the time of bond issuance.) GARVEE bonds are secured solely by Federal highway reimbursements and do not carry either a direct or implied guarantee of the State. The previously issued GARVEE bonds received Aa2/AA-/AA- ratings from Moody's Investors Service, Standard & Poor's Ratings Service and FitchRatings, respectively. The following table summarizes the projected GARVEE debt issuance, debt service, projected obligation authority, and debt service coverage ratios:

	Fiscal Year Ending June 30 (\$000's)					
	2009	2010	2011	2012	2013	2014
GARVEE Bonds Issued	\$600,000	\$675,000	\$675,000	\$0	\$0	\$0
Debt Service Requirements	153,764	228,771	308,201	347,865	348,381	347,914
Projected Obligation Authority	1,755,195	1,785,033	1,815,378	1,846,240	1,877,626	1,909,546
Debt Service Coverage Ratios	11.41	7.80	5.89	5.31	5.39	5.49

Currently, the three rating agencies differ in their treatment of GARVEE debt--both Fitch and Moody's Investors Service include GARVEE debt in their calculations of net tax-supported debt while Standard & Poor's does not include it. Given the anticipated size of the program, and that Moody's Investors Service and Fitch include GARVEE debt in their calculations of tax-supported debt, the State believes it is important to analyze the effect that GARVEE debt will have on the debt ratios. Based on the currently outstanding and projected issuances of debt by the State, the following table summarizes the total projected amount of debt outstanding all inclusive of general obligation debt, guaranteed revenue debt, and GARVEE debt.

	Fiscal Year Ending June 30 (\$000's)					
	2009	2010	2011	2012	2013	2014
Debt Outstanding at Beginning of Year	\$9,440,050	\$10,897,045	\$11,926,610	\$12,835,505	\$13,022,495	\$13,201,945
New G.O. & G.R.B. Issuances	1,615,105	1,216,685	1,200,000	1,200,000	1,200,000	1,200,000
New GARVEE Bond Issues	600,000	675,000	675,000	0	0	0
Scheduled/Early Debt Retirements	(758,110)	(862,120)	(966,105)	(1,013,010)	(1,020,550)	(1,013,765)
Outstanding Debt at End of Year	10,897,045	11,926,610	12,835,505	13,022,495	13,201,945	13,370,180
Highest Annual Debt Service (Issued and Unissued)	1,252,032	1,521,365	1,686,277	1,752,424	1,777,015	1,805,324

Issuance of the projected amount of GARVEE debt uses interest rate assumptions of 5.75 percent for FY2009, and 6.00 percent thereafter, and the economic and demographic assumptions previously presented. In addition, for the calculation of the debt service to receipts ratios shown below, projected Federal highway reimbursements have been included in receipts. Federal reimbursements are projected based on the three year average of federal reimbursements received during federal fiscal years 2006 through 2008 and applying an annual 1.7 percent growth rate. The federal reimbursements include all Federal Highway Administration reimbursements received by the State. The results are as follows:

	Triple-A Average	Maximum Plan Level	2009	2010	2011	2012	2013	2014
Debt Service to Prior Year Receipts + Federal Reimbursements	NA*	8.0%	5.98%	7.58%	8.08%	8.06%	7.79%	7.53%
Debt Service to Current Year Receipts + Federal Reimbursements	NA*	NA	6.24%	7.29%	7.75%	7.68%	7.41%	7.19%
Debt to Personal Income	%	4.0%	3.26%	3.43%	3.50%	3.36%	3.22%	3.08%
Debt per Capita	\$1,158	\$1,500	\$1,123	\$1,209	\$1,277	\$1,271	\$1,265	\$1,258
Debt to Actual Value	----	NA	1.07%	1.14%	1.19%	1.17%	1.15%	1.13%

Peak debt ratios are shown in bold; based on debt outstanding at the end of the year.

* Georgia's constitutional debt limit is for both general obligation and guaranteed revenue debt, the highest aggregate annual debt service requirements, including proposed debt, for the current year or any subsequent year, cannot exceed 10 percent of the prior year's total treasury receipts. In addition, 10 percent is the standard used by rating agency analysts as a warning level that should not be exceeded, as a greater percentage could place too heavy a fixed-cost burden on the budget, thereby limiting fiscal flexibility.

As shown in the table above, including the GARVEE bonds in the debt ratio calculations will increase debt burden. All five debt ratios peak in fiscal year 2011. Debt to Personal Income and Debt per Capita ratios remain below the maximums inclusive of the GARVEE debt as established in the Debt Management Plan. However, the Debt Service to Prior Year Receipts ratio exceeds the eight percent plan level in both fiscal years 2011 and 2012, but fall below the maximum level in subsequent years. This is

due to reduced projections in federal reimbursements compared to provisions debt management plans. At this time, there are no plans to adjust the GARVEE plan. One of the ways in which the State can help address the current economic challenges is through increased investment in public infrastructure, which creates needed construction-related jobs now and builds a foundation for economic growth and job creation over the long-term. The general economic benefit for the State resulting from the improved transportation facilities financed by the GARVEE bonds should incrementally offset the increased debt burden. However, the State will continue to monitor the ratios closely as additional debt is issued and as federal reimbursement projections are revised to ensure that the State maintains reasonable debt levels.

Summary

The Plan will assist in ensuring the availability of funding for necessary capital projects required to meet the State's future needs and maintain the balance between the State's demand for capital and the ability and willingness of the State to repay additional debt. In addition, the Plan should assist in the preservation of the State's triple-A ratings from all three rating agencies by assuring the rating agencies that the State can fund the capital projects necessary to sustain its economic growth. The State has established its maximum levels for the debt ratios and will carefully monitor its debt level and ratios and adjust debt issuances if the ratios consistently exceed the target levels. The Plan is updated every year and all assumptions are revisited as needed to most accurately and conservatively measure the State's debt capacity.

The following table summarizes the assumptions and resulting debt ratios, based on the currently projected debt issuance schedule for general obligation bonds, guaranteed revenue bonds and GARVEEs.

State of Georgia
Summary of Projected Debt Ratios
(Without GARVEEs)

	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014
Debt Outstanding, Beginning of Fiscal Year	\$8,444,135,000	\$9,367,640,000	\$9,831,650,000	\$10,221,275,000	\$10,612,690,000	\$11,008,185,000
General Obligation Bond Issuances						
New Authorizations	1,024,085,000	1,216,685,000	1,200,000,000	1,200,000,000	1,200,000,000	1,200,000,000
Prior Year Authorizations	591,020,000					
Scheduled/Early Retirements	(691,600,000)	(752,675,000)	(810,375,000)	(808,585,000)	(804,505,000)	(804,620,000)
Debt Outstanding, End of Fiscal Year	\$9,367,640,000	\$9,831,650,000	\$10,221,275,000	\$10,612,690,000	\$11,008,185,000	\$11,403,565,000
Unissued Debt at End of Fiscal Year	-	-	-	-	-	-
Highest Annual Debt Service-Issued	\$1,098,250,000	\$1,292,595,000	\$1,378,077,000	\$1,404,559,000	\$1,428,634,000	\$1,457,409,000
Highest Annual Debt Service-Unissued	18,000					
Highest Annual Debt Service-Total	\$1,098,268,000	\$1,292,595,000	\$1,378,077,000	\$1,404,559,000	\$1,428,634,000	\$1,457,409,000
Treasury Receipts						
Federal Reimbursements	\$18,945,200,000	\$19,719,500,000	\$20,589,000,000	\$21,638,400,000	\$22,770,700,000	\$23,871,800,000
Total Revenues	\$18,945,200,000	\$19,719,500,000	\$20,589,000,000	\$21,638,400,000	\$22,770,700,000	\$23,871,800,000
Population	9,704,000	9,865,000	10,055,000	10,244,000	10,434,000	10,632,000
Personal Income	\$334,300,000,000	\$347,500,000,000	\$366,300,000,000	\$387,600,000,000	\$410,100,000,000	\$433,600,000,000
Property Valuation	\$1,017,700,000,000	\$1,048,300,000,000	\$1,079,700,000,000	\$1,112,100,000,000	\$1,145,500,000,000	\$1,179,900,000,000
Ratios for 10% Constitutional Limit (based on highest annual debt service for both issued and unissued debt)						
Debt service to Prior Year Receipts (1)	5.55%	6.82%	6.99%	6.82%	6.60%	6.40%
Debt service to Current Year Receipts	5.80%	6.55%	6.69%	6.49%	6.27%	6.11%
Ratios based on outstanding principal at the end of the year (for issued debt only)						
Debt per Capita	\$965.34	\$996.62	\$1,016.54	\$1,035.99	\$1,055.03	\$1,072.57
Debt to Personal Income	2.80%	2.83%	2.79%	2.74%	2.68%	2.63%
Debt to Estimated Actual Value	0.92%	0.94%	0.95%	0.95%	0.96%	0.97%

(1) FY2008 Treasury Receipts = \$19,789,800,000

State of Georgia
Summary of Projected Debt Ratios
(Including GARVEEs)

	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014
Debt Outstanding, Beginning of Fiscal Year	\$9,440,050,000	\$10,897,045,000	\$11,926,610,000	\$12,835,505,000	\$13,022,495,000	13,201,945,000
General Obligation Bond Issuances						
New Authorizations	1,024,085,000	1,216,685,000	1,200,000,000	1,200,000,000	1,200,000,000	1,200,000,000
Prior Year Authorizations	591,020,000					
GARVEE Issuances	600,000,000	675,000,000	675,000,000			
Scheduled/Early Retirements	(758,110,000)	(862,120,000)	(966,105,000)	(1,013,010,000)	(1,020,550,000)	(1,031,765,000)
Debt Outstanding, End of Fiscal Year	\$10,897,045,000	\$11,926,610,000	\$12,835,505,000	\$13,022,495,000	\$13,201,945,000	\$13,370,180,000
Unissued Debt at End of Year						
Highest Annual Debt Service-Issued	\$1,252,014,000	\$1,521,365,000	\$1,686,277,000	\$1,752,424,000	\$1,777,015,000	1,805,324,000
Highest Annual Debt Service-Unissued	18,000					
Highest Annual Debt Service-Total	\$1,252,032,000	\$1,521,365,000	\$1,686,277,000	\$1,752,424,000	\$1,777,015,000	\$1,805,324,000
Treasury Receipts	\$18,945,200,000	\$19,719,500,000	\$20,589,000,000	\$21,638,400,000	\$22,770,700,000	23,871,800,000
Federal Reimbursements	1,122,676,000	1,141,762,000	1,161,172,000	1,180,912,000	1,200,987,000	1,221,404,000
Total Revenues	\$20,067,876,000	\$20,861,262,000	\$21,750,172,000	\$22,819,312,000	\$23,971,687,000	\$25,093,204,000
Population	9,704,000	9,865,000	10,055,000	10,244,000	10,434,000	10,632,000
Personal Income	\$334,300,000,000	\$347,500,000,000	\$366,300,000,000	\$387,600,000,000	\$410,100,000,000	433,600,000,000
Property Valuation	\$1,017,700,000,000	\$1,048,300,000,000	\$1,079,700,000,000	\$1,112,100,000,000	\$1,145,500,000,000	1,179,900,000,000
Ratios for 10% Constitutional Limit (based on highest annual debt service for both issued and unissued debt)						
Debt service to Prior Year Receipts						
Plus Federal Reimbursements (1)	5.98%	7.58%	8.08%	8.06%	7.79%	7.53%
Debt service to Current Year Receipts						
Plus Federal Reimbursements	6.24%	7.29%	7.75%	7.68%	7.41%	7.19%
Ratios based on outstanding principal at the end of the year (for issued debt only)						
Debt per Capita	\$1,122.94	\$1,208.98	\$1,276.53	\$1,271.23	\$1,265.28	\$1,257.54
Debt to Personal Income	3.26%	3.43%	3.50%	3.36%	3.22%	3.08%
Debt to Estimated Actual Value	1.07%	1.14%	1.19%	1.17%	1.15%	1.13%

(1) FY2008 Treasury Receipts = \$19,789,800,000; FY2008 Federal Reimbursements = \$1,130,607,000

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